IN THE

Supreme Court of the United States

OCTOBER TERM, 1964

No. 20

WALTER C. BRULOTTE and CECELIA BRULOTTE, his wife
and
RAYMOND CHARVET and BLANCHE CHARVET, his wife,
Petitioners

v.

THYS COMPANY, *Respondent*

BRIEF FOR PETITIONERS

EDWARD S. IRONS
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036
Attorney for Petitioners

Of Counsel:

CHARLES C. COUNTRYMAN
VELIKANJE, MOORE & COUNTRYMAN
Suite 4 - Yakima Legal Center
303 East "D" Street
Yakima, Washington

IRONS, BIRCH, SWINDLER & MCKIE
1000 Connecticut Avenue, N. W.
Washington, D. C. 20036

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CITATIONS TO OPINIONS BELOW

The memorandum opinion of the Superior Court of the State of Washington in and for Yakima County (R. 82-89) is unreported. The opinion of the Supreme Court of the State of Washington (Department One) (R. 106-114) is reported at 62 Wn. 2d 284, 382 P. 2d 271, 138 U.S.P.Q. 411 (1963).

JURISDICTION

The final judgment of the Supreme Court of the State of Washington (Department One) was entered on October 4, 1963 (R. 106-115). A petition for rehearing *en banc* was denied October 4, 1963 (R. 116). The petition for a writ of certiorari was filed on December 26, 1963 and was

granted on February 17, 1964. The jurisdiction of this Court is invoked under 28 U.S.C. Sec. 1257(3).

QUESTIONS PRESENTED

1. Whether it is a misuse to include in a license agreement a provision which perpetuates the monopoly of a licensed patent by a requirement that royalties be paid for the use of the invention after the patent has expired and the invention had been dedicated to the public.

2. Whether it is a misuse or an antitrust violation to include in a license agreement a provision which extends the monopoly of a patent to unpatented subject matter by a provision which requires the payment of post-expiration royalties.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

This case involves Article 1, Sec. 8 of the Constitution of the United States, 35 U.S.C. Sec. 154 and 15 U.S.C. Secs. 1 and 2, (App. A, *infra*, p. 36, 37). The case also involves the public policy of the patent laws of the United States as delineated by this Court.

STATEMENT

These consolidated cases are actions by Respondent for the collection of royalties under certain sale and patent licensing contracts with Petitioners. The contracts require payment of post-expiration or post-invalidation royalties for the right to use the inventions of eleven of the twelve patents specifically identified therein. The court below held that the contractual extension of the patent monopolies by the post-expiration royalty provisions was neither a misuse nor a violation of the antitrust laws.

The decision below is in error. These cases present an aggravated form of patent misuse and antitrust violation accomplished by license agreements which extend the statutory monopoly beyond its legitimate scope.

Petitioner Walter C. Brulotte and his wife Cecelia, and Petitioner Raymond Charvet and his wife Blanche, are hop farmers resident in Yakima County, Washington.

Respondent Thys Company, a California corporation, is the sole domestic manufacturer of portable hop-picking machines (R. 49). During the period from about 1941 (R. 46) to about 1947 (R. 47), Respondent caused to be manufactured some 215 portable hop-picking machines.[1] Since about 1943, Respondent has been engaged in the business of supplying such portable hop-picking machines to the trade pursuant to similar "sale and license" form agreements (R. 43, 54-55).

With respect to the new portable hop-picking machines, Respondent entered into two-party agreements with the original "purchasers" (R. 45, 54-55). These two-party contracts provided for the passage of bare title only to the purchaser.[2] These same agreements further provided that "in order to use said machine(s)" the purchaser "*must secure*"[3] from Respondent a royalty-bearing license, included as a part of the agreements, under a package of

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1 Respondent built about fifteen portable hop-picking machines in California (R. 40) and contracted with the Lindeman Power Equipment Company of Yakima, Washington, for the manufacture of some 200 additional machines (R.45). These machines were sold for use inter alia in Washington, Oregon, California, New York and in foreign countries (R.45).

2 The "title" vested in Petitioners was indeed "bare". Petitioners were required by paragraph 10 of the contracts to "use coir yarn or other twine satisfactory" to Respondent in the operation of the portable hop-picking machines and to pay royalties "whether or not coir yarn be used and whether or not the methods and processes disclosed and claimed" in patent 2,114,712 be employed.

The opinion of the court below (R. 107-108) details further obligations imposed upon Petitioners by the contracts. Among such obligations are an agreement (1) not to contest validity of the patents and not to assign the agreements or any interest therein, (2) not to permit the purchased machines to become subject to any lien or encumbrance, (3) not to permit the machines to be seized or levied upon by process of law without prior written consent, (4) not to permit their removal from the county of Petitioners' residence, (5) to maintain the machines in a "good state of repair, to replace all wornout parts, (6) to pay all taxes on the machines and (7) to maintain insurance against loss or damage by fire, theft and collision" equal to the full insurable value of the machines.

3 See paragraph 6 of the contracts in suit reproduced infra, page 5.

twelve patents identified by number and other unidentified "patents pending".

In the event of a subsequent "sale" by the original "purchaser", a three-party or "transfer" agreement was consummated between Respondent, the original "purchaser" and the new "owner" (R. 44-45, 54-55). All of the original sale or two-party agreements and all of the "transfer" or three-party agreements included the same sale, licensing and royalty provisions as the Petitioners' contracts. The trial court stated:

> "It is further agreed that the form contracts used covered portable hop-picking machines and that the contracts were uniform with other contracts used whether thev were three-party contracts or two-party contracts. The contracts purport to pass title to the machines to the defendants but provide that they shall not be used except under licenses specified in the contracts which also provide for payment of royalties. See sections 6, 7 and 8 of contracts (Exhibits 1 and 3." (R. 83).[4]

On August 10, 1948, Petitioner Brulotte entered into the "transfer" agreement here in suit. (R. 70-73) with respect to a certain portable hop-picking machine identified as 44-L-59. The parties to that transfer agreement are Respondent, Petitioner Brulotte and his wife, and the former owner of machine 44-L-59, Yakima Chief Ranches, Inc., of Mabton, Washington.

The Brulotte transfer agreement typically provides in paragraph 2 for the payment by Brulotte to the former "owner", Yakima Chief Ranches, of some $3,125.00 for "title" to the hop-picking machine in question.[5]

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[4] "Exhibit 1" is the Brulotte contract (R. 70-73) in suit; "Exhibit 3" is the Charvet contract (R. 78-81) in suit.

[5] The Brulotte contract reproduced at pages 70-71 of the record refers in paragraph 1 to two hop-picking machines identified as 44-L-55 and 44-L-59. The first of these machines, 44-L-55, was "sold" by Petitioner Brulotte on the 12th day of August 1952, to Herke Bros. of Tampico, Washington, by another "transfer" agreement identical in form with the Brulotte agreement. That agreement is reproduced at pages 74-75 of the record. By reason of the transfer of the portable hop-picking machine identified as 44-L-55 from Petitioner Brulotte to Herke Bros., that machine is not specifically-involved in this litigation. (R. 29).

Paragraphs 5, 6 and 7 of the form agreement provide:

"5. Title to said machine(s) shall vest in Second Party (Brulotte) on deliver of said machine(s) to Second Party (Brulotte) by Third Party (Yakima), but the *vesting of title* to said machine(s) in Second Party (Brulotte) *shall not license* Second Party (Brulotte) *to use* said machine(s) and to practice the methods and processes disclosed and claimed in Letters Patent hereinafter listed and related thereto.[6]

"6. It is expressly understood that the sale and/or delivery of said machine(s) is *without the right to use said machine(s)* and/or the methods and processes disclosed and claimed in the Letters Patent listed hereinafter, and that *in order to use said machine(s)* and/or said methods and processes Second Party (Brulotte) *must secure* from First Party (Respondent) *a license* to use said machine(s) and/or said methods and processes, and that the continuing right to use said machine(s) and/or said methods and processes is strictly conditioned upon the full and faithful performance of such license;

"Wherefor, First Party (Respondent) hereby grants to Second Party (Brulotte) a non-exclusive, indivisible and non-transferable license, as long as the terms hereof be fully and faithfully performed and maintained, to use said machine(s), for the purpose of (sic) which said machine(s) was/were designed and said methods and processes as disclosed in the following Letters Patent:

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[6] Unless otherwise indicated, all emphasis is supplied.

U. S. Patent Number	*Date of Issue*	*Invention*
2,114,712	April 19, 1938	Method of Keeping the Fingers of Hop Picking Machines Clean
2,114,727	April 19, 1938	Hop Picking Machine
2,116,006	May 3, 1938	Hop and Stem Separator
2,138,529	November 20, 1938	Hop Separator
2,139,029	December 6, 1938	Hop Picking Machine
2,139,046	December 6, 1938	Hop Separator
2,187,526	January 16, 1940	Hop Picking Machine
2,191,183	February 20, 1940	Finger Structure and Supporting Bar for Hop Picking Machine
2,193,354	March 12, 1940	Vine Grasper Bar
2,211,357	August 13, 1940	Hop Picking Machine
2,226,009	December 24, 1940	Hop Separator
2,336,280	December 7, 1943	Hop Cluster Stemmer

Other Patents Pending.

> "7. The term of the license granted to Second Party (Brulotte) by First Party (Respondent), as provided in Paragraph 6 hereof, shall be from date first above written until completion of the 1958 harvest, irrespective of the date of expiration of any of the Letters Patent hereinbefore listed."

Paragraph 8 of the Brulotte contract provides for a minimum royalty of $500.00 per annum, or a running royalty of $3.33-1/3 per 200 pounds of dried hops harvested annually by the licensed machine, whichever is greater, for the full term of the contract, *i.e.*, "until completion of the 1958 harvest".[7]

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[7] In **Thys v. State**, 31 Wash. 2d 739, 199 P. 2d 68, cert. den. 337 U.S. 917, 69 S. Ct. 1158, 93 L. Ed. 1727 (1949), the Supreme Court of Washington held that the royalty income received by Thys was a part of the purchase price for the portable hop-picking machines and, hence, subject to the Washington State sales tax.

On January 31, 1951, Petitioner Charvet entered into a transfer agreement (R. 78-81) identical in form with the Brulotte contract. Pursuant to that contract Petitioner Charvet paid the former "owner", one Oliver Champoux, $3,300.00 for "title" to portable hop-picking machine No. 44-L-134. The Charvet agreement was effective as of January 31, 1951, and continued "until the completion of the 1960 harvest". At the time of the trial, Petitioner Charvet's machine No. 44-L-134 had "not been used or operated since 1952" (Finding of Fact 6, R. 95).[8]

The court below affirmed the decision of the trial court that the agreements could not be terminated by Petitioners until expiration of the stated term, as follows:

> ". . . the learned trial judge, in a very able memorandum decision, said:
>
> '. . .it appears to me that under the language of the contracts contained in paragraph six thereof, it was the intent of the parties that the contracts could only be cancelled at the election of he plaintiff in the event of default or (sic) payment of royalties. . . . The contract is for a definite term and I am convinced from the reading of it that the parties intended that it run for that term.'" (R. 113).

It is apparent from the face of the Petitioners' contracts that eleven of the twelve patents listed by number *expired* during the contract term. Indeed, all save one — patent 2,336,280 — had expired or been invalidated bv August 13, 1957, the date of expiration of patent 2,211,357 —two years prior to the termination of the Brulotte contract and four years prior to the termination of the Charvet

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[8] The Findings of Fact are to be accepted as correct. The Supreme Court of the State of Washington stated in its opinion:

> "No error is assigned to the findings of fact. All of the errors assigned pertain to the interpretation and effect of the contracts. . . ." (R. 108).

contract.[9] Finding of Fact 7 of the trial court states in pertinent part:

> ". . . It is admitted in the pleadings that seven and only seven of the twelve of the plaintiff's patents listed by number in said contracts were incorporated into the defendants' hop picking machines, and all of those patents expired on or before 1957. . . . " (R. 95)[10]

By the contracts in suit, Respondent guaranteed that its royalty income — including that portion attributable to he eleven expired and invalidated patents — would continue at an undiminished rate for the full term of the agreements.

In other words, the monopoly of the expired and invali-

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[9] Patent 2,226,009, which would have expired on December 24, 1957, was invalidated in **Thys Co. v. Anglo-California National Bank,** 111 F. Supp. 665 (N.D. Cal. 1953), **aff'd** 219 F. 2d 131 (9th Cir. 1955), **cert. den.** 349 U.S. 946, 75 S. Ct. 875, 99 L. Ed. 1272 (1955), **reh. den.** 350 U.S. 855, 76 S. Ct. 40, 100 L. Ed. 760 (1955). Patent 2,114,712 was invalidated in **E Clemens Horst Co.** v. **Oeste,** 114 F. Supp. 403 (N.D. Cal. 1953).

[10] The same Finding of Fact 7 states with respect to "patents pending":

> " . . . Of the patents pending at the time the agreements were entered into one patent (Exhibit 22) was pending when both defendants' contracts were entered into and said patent does not expire until 1969. One patent (Exhibit 23) was pending as to Brulotte but not as to Charvet and is as yet unexpired; and one patent (Exhibit 25), was pending as to Charvet but not as to Brulotte and is as yet unexpired. Three patents were declared invalid by lower federal courts, namely Exhibit 6, a method patent, Exhibit 15 which was never incorporated into defendants' portable hop picking machines, and Exhibit 23 which was not listed by number in these contracts and was subsequently issued and was a patent pending as to Brulotte but not as to Charvet. . . . " (R. 95).

It stands admitted that the invalidated patents also were employed as a means of extracting royalty payments from Petitioners. The "Brief of Respondent in Opposition" to the Petition for the Writ of Certiorari states:

> ". . . as testified by Thys, at least three patents subsequently issued, namely Ex. 22, 23 and 25, are incorporated, used, and included in these license royalty contracts under the term 'other patents pending. . . ' " (P. 9)

Patent 2,448,063 (Exhibit 23) (R. 61) was in fact invalidated in the case of **Thys Co.** v. **Oeste,** 114 F. Supp. 403 (N.D. Cal. 1953), **aff'd** 219 F. 2d 131 (9th Cir. 1955), **cert. den.** 349 U. S. 946, 75 S. Ct. 875, 99 L. Ed. 1272 (1955), **reh. den.** 350 U. S. 855, 76 S. Ct. 40, 100 L. Ed. 760 (1955). There is no evidence that either of the two remaining "pending" patents, namely, patent 2,559,060 (Exhibit 22) (R. 59) and patent 2,647,626 (Exhibit 25) (R. 62), was ever used in either of Petitioners' machines (R. 67-69).

dated patents was perpetuated by these contracts — and by similar form agreements covering over 200 additional portable hop-picking machines — long after the subject matter thereof had passed into the public domain.

The court below enforced the post-expiration and past invalidation royalty provisions for the full term of the contracts in suit. It affirmed the trial court judgment against Brulotte in the amount of $7,591.96 plus interest and against Charvet in the amount of $6,232.00 plus interest. In so doing it ignored the controlling precedent of this Court, and it rejected the decisions of the lower federal courts which have been guided by that precedent.

SUMMARY OF ARGUMENT

1.

The policy of the patent laws guarantees to the public the free right to use the subject matter of expired patents. *Sears Roebuck & Co., v. Stiffel Co.*, 376 U.S. 225, 84 S Ct 784, 11 L Ed 2d 661 (1964); *Compco Corp. v. Day-Brite Lighting*, 376 U.S. 234, 84 S Ct 779, 11 L Ed 2d 669 (1964). That policy demands not only that each member of the public shall be *free* to use the invention of the expired patent but also that the consuming public at large shall receive the benefits of unrestricted use, by others, of its disclosures. *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 66 S Ct 101, 90 L Ed 47 (1945).

The post-expiration royalty provisions of the contracts in suit violate these principles by compromise of the paramount public right in the inventions of the expired monopolies. The contracts are therefore unenforceable because they constitute a misuse of the licensed patents. *American Securit Co. v. Shatterproof Glass Corp.*, 268 F 2d 769 (CCA 3, 1959); *Ar-Tik Systems, Inc., v. Dairy Queen, Inc.*, 302 F 2d 496 (CCA 3, 1962).

2.

Unenforceability of the contracts in suit for violation of the anti-trust laws follows *a fortiori* from the post-expiration royalty provisions which extend the monopolies of the

licensed patents to unpatented subject matter. *Mercoid Corporation v. Minneapolis Honeywell Regulator Co.*, 320 U.S. 680, 88 L Ed 396, 64 S Ct 278; *United States v. Loew's Inc.*, 371 U.S. 38, 83 S Ct 97, 9 L Ed 2d 11. The unpatented subject matter to which the statutory monopolies have been extended in this case includes the inventions of expired and invalidated patents. Since the public has invested in the unrestricted free right to use such inventions "by the grant of a monoply to the patentee for a *limited* time"; *Scott Paper Co. v. Marcalus Mfg. Co., supra*, any compromise of that free public right by private contract is *per se* unreasonable and hence in violation of Sec. 1 of the Sherman Act.

ARGUMENT

The monopoly of the licensed patents has been extended beyond its statutory and constitutional scope by the post-expiration royalty contracts enforced by the court below. By these agreements the paramount right of the public to the *free* use of the subject matter of the expired patents has been compromised to enhance the private fortune of the patent owner.

The decision below violates the fundamental public policy of both the patent laws and the antitrust laws which, together, insure free competition in unpatented materials. This case demonstrates, in aggravated form, the evils consequent from abuse of the patent monopoly which this Court has condemned at least since the first misuse decision in *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.2. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917).[11]

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[11] Indeed, this first misuse decision itself condemned contractual post-expiration extension of the patent monopoly. That case involved a notice attached to a patented motion picture projector. The notice provided that the patented projector might be used "only with moving picture films containing the invention of reissued patent No. 12,192 . . ." Noting that the reissue patent had expired, the opinion held:

> "Such a restriction is invalid because such a film is obviously not any part of the invention of the patent in suit; because it is an attempt, without statutory warrant, to continue the patent monopoly in this particular character of film after it has expired. . . ." **Motion Picture Patents Co. v. Universal Film Mfg. Co.**, 243 U. S. 502, 518, 37 S. Ct. 416, 61 L. Ed. 871, 879 (1917).

A. The Licensed Patents Have Been Misused

In *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661 (1964) this court again emphasized the rule that:

> "... when the patent expires the monopoly created by it expires, too, and the right to make the article — including the right to make it in precisely the shape it carried when patented—passes to the public. Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 120-122, 83 L ed 73, 79, 80, 59 S. Ct. 109 (1938); Singer Mfg. Co. v. June Mfg. Co., 163 US 169, 185, 41 L ed 118, 124, 16 S Ct 1002 (1896). [11 L. Ed. 2d 661, 666]
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> "... An unpatentable article, like an article on which the patent has expired, is in the public domain and may be sold by whoever chooses to do so. What Sears did was to copy Stiffel's design and to sell lamps almost identical to those sold by Stiffel. This it had every right to do under the federal patent laws. That Stiffel originated the pole lamp and made it popular is immaterial. 'Sharing in the goodwill of an article unprotected by patent or trade-mark is the exercise of a right possessed by all — and in the *free* exercise of which the consuming public is deeply interested.' Kellogg Co. v National Biscuit Co., supra, 305 US, at 112, 83 L ed at 80." [11 L. Ed. 2d 661, 667]

In *Sears* and in the companion case of *Compco Corp.* v. *Day-Brite Lighting*, 376 U. S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964), the paramount public policy of the patent laws was held to preclude the extension of the monopoly of an expired or invalidated patent by the state law of unfair competition.

The decisions in *Sears* and *Compco* applied to the field of unfair competition the same principles defined almost twenty years before in *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945). In

that case the same paramount public right to the free use of the subject matter of an expired patent was held to prevail over the private law of contract. In *Scott Paper Co.* the question was

> " . . . whether the assignor of a patent is estopped by virtue of his assignment to defend a suit for infringement of the assigned patent on the ground that the alleged infringing device is that of a prior art, expired patent." *Scott Paper Co.* v. *Marcalus Mfg. Co.,* 326 U. S. 249, 250, 66 S. Ct. 101, 90 L. Ed. 47, 48.

Mr. Chief Justice Stone emphasized that any attempt by the patent owner to compromise the public interest in the subject matter of an expired patent was in conflict with the public policy of the patent laws. The opinion states:

> " . . . By the patent laws Congress has given to the inventor opportunity to secure the material rewards for his invention for a limited time, on condition that he make full disclosure for the benefit of the public of the manner of making and using the invention, and that upon the expiration of the patent the public be left *free* to use the invention. . . . As has been many times pointed out, the means adopted by Congress of promoting the progress of science and the arts is the limited grant of the patent monopoly in return for the full disclosure of the patented invention and its dedication to the public on the expiration of the patent. . . .
>
> "The aim of the patent laws is not only that members of the public shall be *free* to manufacture the product or employ the process disclosed by the expired patent, but *also that the consuming public at large shall receive the benefits of the unrestricted exploitation, by others, of its disclosures.* Kellogg Co. v. National Biscuit Co., 305 US 111, 117-120, 83 L ed 73, 77-79, 59 S Ct 109.–*If a manufacturer or user could restrict himself, by express contract,* or by any action which would give rise to an 'estoppel,' *from using the invention of an expired patent, he would deprive himself and the consuming public of the advan-*

tage to be derived from his free use of the disclosures. The public has invested in such *free* use by the grant of a monopoly to the patentee for a limited time. *Hence any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws. . . .*

"By the force of the patent laws not only is the invention of a patent dedicated to the public upon its expiration, but the public thereby becomes entitled to share in the good will which the patentee has built up in the patented article or product through the enjoyment of his patent monopoly. Hence we have held that the patentee may not exclude the public from participating in that good will or secure, to any extent, a continuation of his monopoly by resorting to the trademark law and registering as a trademark any particular descriptive matter appearing in the specifications, drawings or claims of the expired patent, whether or not such matter describes essential elements of the invention or claims. Kellogg Co. v. National Biscuit Co. supra (305 US 117-120, 83 L ed 77-79, 59 S Ct 109); Singer Mfg. Co. v. June Mfg. Co., 163 US 169, 185, 41 L ed 118, 124, 16 S Ct. 1002.

"It is thus apparent that *the patent laws preclude the patentee of an expired patent and all others including petitioner from recapturing any part of the former patent monopoly;* for those laws dedicate to all the public the ideas and inventions embodied in an expired patent. *They do not contemplate that anyone by contract or any form of private arrangement may withhold from the public the use of an invention for which the public has paid by its grant of a monopoly and which has been appropriated to the use of all. The rights in the invention are then no longer subject to private barter, sale or waiver. . . .*" (326 U. S. 249, 255-257, 66 S. Ct. 101, 90 L. Ed. 47, 51-52)

Since the decision in *Scott Paper*, every circuit court of appeals which has been presented, in the context of its misuse and antitrust consequences, with any contract serving to perpetuate the monopoly of an expired patent has found that contract illegal.[12] Earlier cases in the Second Circuit, sometimes cited as condoning post-expiration royalty agreements, were recognized to be dicta and rejected.

The development of the law is well summarized in the decision of the Third Circuit in *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496 (3d Cir. 1962) – a case admittedly in conflict with the decision below.[13]

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[12] The Third Circuit Court of Appeals in **Ar-Tik Systems, Inc. v. Dairy Queen, Inc.**, 302 F. 2d 496 (3d Cir. 1962) and **American Securit Co. v. Shatterproof Glass Corp.**, 268 F. 2d 769 (3d Cir. 1959), **cert. den.** 361 U. S. 902, 80 S. Ct. 210, 4 L. Ed. 2d 157 (1959), **reh. den.** 361 U. S. 973, 80 S. Ct. 584, 4 L. Ed. 2d 553 (1960) found contracts containing provisions for post-expiration royalties to constitute an illegal extension of the monopoly. The Fifth Circuit in **Scapa Dryers, Inc. v. Abney Mills**, 269 F. 2d 6 (5th Cir. 1959) and the Sixth Circuit in **Prestole Corporation v. Tinnerman Products, Inc.**, 271 F. 2d 146 (6th Cir. 1959), **cert. den.** 361 U. S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545 (1960) similarly invalidated covenants not to use the subject matter of an expired patent. See also the decision of the Second Circuit in **Lucien Lelong, Inc. v. Lander Co.**, 164 F. 2d 395 (2d Cir. 1947) which held that a cologne bottle which was the subject of an expired design patent could not, **in toto**, be the subject of an enforceable common law trademark right regardless of alleged secondary meaning. **Zajicek v. Koolvent Metal Awning Corp. of America**, 283 F. 2d 127 (9th Cir. 1960), **cert. den.** 365 U. S. 859, 81 S. Ct. 827, 5 L. Ed. 2d 823 (1961), in enforcing a patent license agreement, did not consider the question of misuse or antitrust violation but relied only upon the intention of the parties as apparently expressed in a contract including a provision for post-expiration royalty payments.

The federal district courts have also recognized the force of **Scott Paper Co.** in invalidating such agreement. See **Technograph Printed Circuits, Ltd. et al. v. Bendix Aviation Corp.**, 218 F. Supp. 1 (D. Md. 1963), **aff'd per curiam** 327 F. 2d 497 (4th Cir. 1964) discussed **infra** p. 19. See also **Hisel v. Chrysler Corp.**, 94 F. Supp. 996 (W.D. Mo. 1951) which holds illegal and contrary to public policy an agreement not to disclose subject matter of an alleged trade secret already fully disclosed to the public in an expired patent.

[13] Footnote 3 of the opinion of the court below states in pertinent part:

"We are aware of a recent contrary decision in **Ar-Tik Systems, Inc. v. Dairy Queen, Inc.**, 302 F. (2d) 496 (C. A. 3d 1962). In that case the payment of royalties was required throughout the life of the machines sold. This was held to be a misuse of patents. We may assume that the agreement was enough like those involved in this case to make the rule applicable. We find the reasoning of the earlier cases more appealing, however, and we are not obliged to follow decisions of lower federal courts. **Lamb v. Railway Express Agency**, 51 Wn. (2d) 616, 320 P. (2d) 644. . . ." (R. 112)

In *Ar-Tik Systems, Inc.*, the Third Circuit said:

"The defendant justifies its termination of payments to Ar-Tik on the ground that the provision of the contract of October 18, 1949, requiring payments to Ar-Tik of royalties beyond the expiration date of the patent, is unenforceable because it constitutes a misuse of the patent.

"Early cases do not sustain that position. In E. R. Squibb & Sons v. Chemical Foundation, 93 F. 2d 475, 477 (2 Cir. 1937) it was said:

" 'There is a presumption that royalties are not to be paid after the expiration of a patent; if the intention is to have them continue longer, the parties should phrase their contract in language from which such intention may fairly be inferred.'

The Court of Appeals for the Second Circuit cited as authority two earlier cases in that circuit: Sproull v. Pratt & Whitney Co., 108 F. 963 (2 Cir. 1901) and Pressed Steel Car Co. v. Union Pac. R. Co., 270 F. 518 (2 Cir. 1920). It should be noted, however, that in all three cases the suggestions that royalties could be made payable on expired patents were dicta because in each of the three cases it was found that the royalty contract did not provide for such payment. And in Sproull, the earliest of the Second Circuit cases, no authority is cited to support the dictum there stated.

* * * * *

"Apparently the first case which questioned the dictum in Squibb is Baker-Cammack Hoisery Mills v. Davis Co., 181 F. 2d 550 (4 Cir. 1950). There the court stated:

" 'The Davis Company in the new offer also eliminated the provision as to the expiration date of the license. Theretofore in order to justify its requirement that a license taken by a manufacturer should

last until the expiration of the youngest patent in the group, it had relied upon the rule announced in such a case as E. R. Squibb & Sons v. Chemical Foundation, 2 Cir., 93 F. 2d 475, 477, that if the contract between the parties expressly so provides, royalty payments may be collected after the expiration of the patent. Such a provision, however, might easily lend itself to an unreasonable restraint of trade by extending patents beyond their legal limit; but it has been eliminated in the pending case and need no longer be considered.' 181 F. 2d at p. 573.

"The New York Court of Appeals has also questioned the dictum in Squibb in April Productions v. G. Schirmer, Inc., 308 N. Y. 366, 126 N. E. 2d 283, 69 A. L. R. 2d 1305 (1955). There the court held that where a licensee had copyrighted a composition in its own name in accordance with the custom in the music publication business and the contract provided for royalties to the licensor, who was the assignee of the composer, for each copy sold, the payment of royalties was not required after the expiration of the copyright. The court said:

" 'Our reading of the contract in suit — as imposing no obligation to pay royalies after the expiration of the underlying copyrights — is reinforced by an established rule of construction applied in the analogous field of patent royalty agreements. See E. R. Squibb & Sons v. Chemical Foundation, 2 Cir., 93 F. 2d 475, 477; Tate v. Lewis, D. C., 127 F. Supp. 105; Dwight & Lloyd Sintering Co. v. American Ore Reclamation Co., D. C., 44 F. Supp. 396. . . . In point of fact, an agreement to pay royalties on the manufacture of a patented article "after the patent expires, whatever the legal device employed," may be unenforcible as contrary to public policy. Scott Paper Co. v. Marcalus Mfg. Co., 326 U. S. 249, 256, 66 S Ct. 101, 104, 90 L. Ed. 47, 51. . . .'

"Further doubt is cast on the vitality of the rule set forth in Squibb, in Warner-Lambert Pharm. Co. v.

John J. Reynolds, Inc., 178 F. Supp. 655 (S.D.N.Y. 1959). There a contract calling for the indefinite payment of royalties for the use of a secret drug formula was upheld. The formula, however, was unpatented. In discussing the instant issue the court said:

> " 'Paralleling the concept that the licensing of a patent or copyright contracts only for the statutory monopoly granted in such cases is the concept not so frequently expressed that public policy may require a termination of the obligation to pay when the patent or copyright term is ended. * * * ' 178 F. Supp. at p. 665.

"As authority for this statement the court cited Scott Paper Co. v. Marcalus Co., 326 U. S. 249, 66 S. Ct. 101 (1945)." *Ar-Tik Systems, Inc.* v. *Dairy Queen, Inc.*, 302 F. 2d 496, 505, 507-508.

The Third Circuit then quoted extensively from the decision of this court in *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945) and continued:

> "This court expressed its views on the present question in American Securit Co. v. Shatterproof Glass Corp., 3 Cir., 263 F. 2d 769 (1959). It held invalid a 'package' licensing agreement wherein the licensee was obliged to take a license on a group of patents even if only one was wanted, stating:
>
> > " 'We conclude also, and *quite apart from* all of the foregoing, that Paragraph 8(a) of Securit's Standard Licensing Agreement which provides that that agreement shall continue "in full force and effect to the expiration fo the last to expire of any" of Securit's patents set out in "Schedule A" constitutes a patent misuse *for it extends the payment of royalties of patents under patents which may expire to the expiration date of tha patent most recently granted to Securit.* * * * ' (Emphasis supplied and footnotes omitted.) 268 F. 2d at p. 777.

"After the expiration of Patent No. 2080971 on May 18, 1954, the grant of patent monopoly was spent. An attempt to extend that monopoly by the exaction of royalties thereafter was unenforceable. Such action clearly appears to be interdicted by Scott Paper Co. v. Marcalus Co., supra, and American Securit. Co. v. Shatterproof Glass Corp., supra.

"See Scapa Dryers, Inc. v. Abney Mills, 269 F. 2d 6 (5 Cir. 1959); Prestole Corp. v. Tinnerman Products, Inc., 271 F. 2d 146 (6 Cir. 1959)." (302 F. 2d 496, 509-510)

The relevant and controlling facts in the portion of *American Securit Co.* reaffirmed by *Ar-Tik Systems, Inc., supra*, and in the case at bar are substantially identical.

In this case, as in *American Securit Co.*, package licenses were before the court. In this case, as in *American Securit Co.*, the royalty rate was undiminished throughout the term of the package license contracts, notwithstanding the expiration of certain of the licensed patents. In this case, as in *American Securit Co.*, the payment of royalties on the unexpired patents continued long after the expiration date. In this case, as in *American Securit Co.*, the legal consequence is misuse of the licensed patents.[14]

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[14] The court below rejected the holding in **American Securit** as follows:

"... **The court** ... (in American Securit Co.) **went on to say that a provision that the licensing agreement should continue in full force and effect until the expiration of the last of the patentee's licenses constituted a misuse of patent.** No authorities are cited in the opinion, and there is no discussion of the theory that the court used in arriving at this conclusion. It is, in any event, dictum. . . . " (R. 111)

But the holding in **American Securit Co.** was not "in any event dictum". As the court below apparently recognized (R. 110, 111), there were two separate misuse violations in **American Securit Co.** The first is mandatory package licensing. The second, which the court was careful to consider "quite apart from" the first was a requirement for post-expiration royalty payments. After enunciating the second violation (i.e., post-expiration royalty provisions), the Third Circuit **held:**

"We conclude for **these** reasons **also** that under the circumstances at bar the court below committed no error in ruling that Securit had misused its patents and that this misuse constituted a valid defense to the infringement suit." **American Securit Co. v. Shatterproof Glass Corp.**, 268 F. 2d 769, 777 (3d Cir. 1959), **cert. den.** 361 U. S. 902, 80 S. Ct. 210, 4 L. Ed. 2d 157 (1959), **reh. den.** 361 U. S. 973, 80 S. Ct. 584, 4 L. Ed. 2d 553 (1960).

It was this second violation of the misuse doctrine by reason of post-expiration royalty provisions which was **reaffirmed** in **Ar-Tik Systems.**

To the same effect is the decision of the District Court for the District of Maryland in *Technograph Printed Circuits, Ltd., et al.* v. *Bendix Aviation Corp.*, 218 F. Supp. 1 (D. Md. 1963), *aff'd per curiam* 327 F. 2d 497 (4th Cir. 1964).[15]

In that case the court considered two different post-expiration royalty contracts. The first contained an express requirement that royalties be paid after the expiration date of one of the licensed patents. With respect to that contract, the court at page 48 said:

> "This express requirement that *royalty* [Emphasis by the court] be paid on a patent for five years after its expiration seems to be a clear violation of established principles that the monopoly of a patent cannot be continued, even by agreement, beyond its expiration date. Motion Picture Patents Co. v. Universal Film Mfg. Co., 1917, 243 U. S. 502, 516, 37 S. Ct. 416, 61 L. Ed. 871; Scott Paper Co. v. Marcalus Mfg. Co., Inc., 1945, 326 U. S. 249, 255-258, 66 S. Ct. 101, 90 L. Ed. 47, Prestole Corp. v. Tinnerman Products, Inc., 6 Cir., 1959, 271 F. 2d 146, 154, 155, cert. den. 1960, 361 U. S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545; Tinnerman Products, Inc. v. George K. Garrett Co., D. C. E. D. Pa. 1960, 185 F. Supp. 151, aff'd. 3 Cir., 1961, 292 F. 2d 137, cert. den. 1961, 368 U. S. 833, 82 S. Ct. 58, 7 L. Ed. 2d 35."

The second agreement discussed by the court in *Technograph* contained a provision similar to that condemned in *American Securit Co.*

The Maryland Court at page 48 said:

> "The validity of such a provision was questioned by the Court of Appeals for the Fourth Circuit because it 'might easily lend itself to an unreasonable restraint of trade by extending patents beyond their

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[15] The affirmance was on the issue of patent invalidity. The Court of Appeals did not refer, in its **per curiam** opinion, to the trial court's statements with respect to misuse.

> legal limit. * * * ' Baker-Cammack Hoisery Mills v. Davis Co., 4 Cir., 1950, 181 F. 2d 550, 573, cert. den. 1950, 340 U. S. 824, 71 S. Ct. 58, 95 L. Ed. 605). . . ."

The Maryland court then noted that:

> "Such a provision was specifically held to be invalid in American Securit Co. v. Shatterproof Glass Co. . . ." (218 F. Supp. 1, 48),

quoted the same passage from *American Securit Co.*, as that relied upon by the Third Circuit in *Ar-Tik Systems, Inc.*, and stated:

> "This court is in accord with the Third Circuit holding." (218 F. Supp. 1, 49)

In *Scapa Dryers, Inc.* v. *Abney Mills*, 269 F. 2d 6 (5th Cir. 1959) the Fifth Circuit followed *Scott Paper Co.* in recognizing misuse consequent from restrictions on the right of a licensee freely to use the subject matter of an expired patent.[16]

The same result was reached on analogous facts by the Sixth Circuit in *Prestole Corp.* v. *Tinnerman Products, Inc.*, 271 F. 2d 146 (6th Cir. 1959), *cert. den.* 361 U. S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545 (1960).[17]

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16 In Scapa Dryers, Inc. v. Abney Mills, 269 F. 2d 6 (1959), on the authority of Scott Paper Co. v. Marcalus Mfg. Co., 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945), the court said:

> "By the patents the Hindles had a monopoly on the looms. This monopoly is sought to be extended and perpetuated by Abney Mills, to the extent of the exclusion of Hindle and those claiming under it or using looms made by it. Such an extension of the patent monopoly is in conflict with the policy of the patent laws. . . ." (269 F. 2d 6, 13)

The court ultimately held that the contract in suit should not be construed to extend the patent monopolies after expiration.

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17 Prestole was followed in a suit involving the same contract in Tinnerman Products, Inc. v. George K. Garrett Co., 185 F. Supp. 151 (E. D. Pa. 1960), aff'd. 292 F. 2d 137 (3d Cir. 1961), cert. den. 368 U. S. 833, 82 S. Ct. 58, 7 L. Ed. 2d 35 (1961).

Both Prestole and Scapa Dryers were cited and followed by the Third Circuit in Ar-Tik Systems, Inc., supra.

In *Prestole* the court held each of a package of licensed patents misused because the license agreement purported to foreclose the licensee from practicing the invention of one of the patents which had expired.[18]

> "We have in mind that after the expiration of a patent, the invention originally protected thereby becomes, for all purposes, an unpatented device. The Courts have uniformly held that existing patents cannot, by conditions attached to license agreements, be used to create or extend a monopoly to unpatented articles.
>
> "In the case of Mercoid Corporation v. Mid-Continent Investment Co., 320 U. S. 661, 64 S. Ct. 268, 88 L. Ed. 376, an accused infringer interposed as defense to a charge of infringement that the plaintiff, 'should be barred from relief because it was seeking to extend the grant of the patent to unpatented devices' (320 U. S. at page 662, 64 S. Ct. at page 269).
>
> "While the facts of that case are not directly in point with the case at bar, the principles involved are sufficiently analogous that the Court's reasoning is opposite here. . . . " *Prestole Corp. v. Tinnerman Products, Inc.*, 271 F. 2d 146, 155-156 (6th Cir. 1959), *cert. den.* 361 U. S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545 1960.

The Sixth Circuit then quoted extensively from the decision in *Mercoid Corp. v. Mid-Continent Invest. Co.*, 320 U. S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944) and stated:

> "The following language of the District Judge in the case of United States v. Timken Roller Bearing Co., 83 F. Supp. 284, 313, was approved by the Supreme Court of the United States by its affirmance in Timken

[18] Compare the ruling in **Motion Picture Patents Company** v. **Universal Film Manufacturing Company**, 243 U. S. 502, 37 S. Ct. 416, 61 L. Ed. 871 (1917) (**supra**, note 11, page 10), which struck down the "notice" purporting to foreclose use of a patented moving picture projector with any motion picture film other than that embodying an invention of an **expired** patent.

Roller Bearing Co. v. United States, 341 U. S. 593, 71 S. Ct. 971, 95 L. Ed. 1199:

"'The proposition of law has been firmly established that the patent does not empower its owner to restrain trade in processes or devices which are not embraced within the scope of his patent.'[19]

"We conclude, therefore, that Tinnerman's thus described misuse of the licensed patents forecloses it from specifically enforcing the license agreement." (271 F. 2d 146, 156)

The error of the decision below is strikingly demonstrated in its attempt to distinguish Prestole, as follows:

"The defendants also cite *Prestole Corp. v. Tinnerman Products, Inc.*, 271 F. (2d) 146, and *Tinnerman Products, Inc.* v. *George K. Garrett Co.*, 185 F. Supp. 151. These cases do not involve the question of whether royalties can be collected after the expiration of a patent, but simply recognize the indubitable rule that the *monopoly* of a patent cannot be extended beyond the 17-year period." (R. 111) (Emphasis by the court.)[20]

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[19] In so asserting, the District Court in **United States** v. **Timken Roller Bearing Co.**, 83 F. Supp. 284 (N. D. Ohio 1949) judgment modified without changing rationale 341 U. S. 593, 71 S. Ct. 971, 95 L. Ed. 1199, relied upon **United States** v. **Line Material Co.**, 333 U. S. 287, 68 S. Ct. 550, 92 L. Ed. 701 (1948); **Standard Sanitary Mfg. Co.** v. **United States**, 226 U. S. 20, 33 S. Ct. 9, 57 L. Ed. 107 (1912); and **United States** v. **United States Gypsum Co.**, 333 U. S. 364, 68 S. Ct. 525, 92 L. Ed. 746 (1948).

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[20] The tenuous distinction of **Prestole** in the opinion of the court below **ignores** its proper application in **Ar-Tik Systems, Inc.** v. **Dairy Queen, Inc.**, 302 F. 2d 496 (3d Cir. 1962) — the rationale of which was summarily rejected by the court below. See footnote 13, **supra**, page 14. In **Ar-Tik Systems**, the Third Circuit expressly held:

"... An attempt to extend that monopoly by the exaction of royalties thereafter was unenforceable." (302 F. 2d 496, 510)

Prestole was among the authorities specifically cited for this proposition. **Prestole** was equally properly applied to **condemn** post-expiration royalty contracts as an **extension** of the patent monopoly in **Technograph Printed Circuits, Ltd. et al** v. **Bendix Aviation Corp.**, 218 F. Supp. 1 (D. Md. 1963), **aff'd per curiam** 327 F. 2d 497 (4th Cir. 1964).

But it is clear from *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945) that the patentee may not "recapture any part of the former monopoly". So much of the decision below as purports to distinguish *Prestole* on the ground that a post-expiration royalty contract is not an extension of the patent monopoly is in obvious conflict not only with *Scott Paper Co.* but also with the various lower federal court decisions in which it has been followed including *American Securit Co.*, *Ar-Tik Systems*, and *Technograph.*[21]

The propriety of these lower federal court decisions is amply demonstrated by *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U. S. 225, 84 S. Ct. 784, 11 L. Ed 2d 661 (1964) and *Compco Corp.* v. *Day-Brite Lighting*, 376 U. S. 234, 84 S. Ct. 779, 11 L. Ed. 2d 669 (1964). In *Compco Corp.*, this Court stated:

> " . . . Today we have held in Sears, Roebuck & Co. v. Stiffel Co., supra, that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. 1, §8, cl. 8, of the Constitution and in the implementing federal statutes, of allowing *free* access to copy whatever the federal patent and copyright laws leave in the public domain. . . . " (11 L. Ed. 2d at 672)

Sears and *Compco* reaffirm the mandate of *Scott Paper Co.* that the right of the public *freely* to use the subject matter of an expired or invalidated patent is *guaranteed* by the federal supremacy of the patent laws and shall not be compromised whether by private contract, by application of a state law of unfair competition, or by any other means.

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21 The extension of the patent monopolies by the contracts in suit is strikingly apparent when the royalties are viewed as payments for immunity from infringement suits. Since no action lies for infringement of expired patents, post-expiration royalty contracts necessarily constitute an expansion of the statutory grant.

The post-expiration and post-invalidation royalty provisions of the licenses in suit obviously violate that guarantee. The legal consequence is misuse of the patents, unenforceability of the license agreements, and antitrust violation.

B. Antitrust Violation

Violation of the antitrust laws follows inexorably from the illegal extension of the licensed patent monopolies to unpatented materials by the post-expiration royalty contracts in suit. Indeed, under the doctrine enunicated by this Court, any extension of a patent monopoly is effectively a *per se* violation of §1 of the Sherman Act.

This rule was first announced in *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U. S. 680, 684, 64 S. Ct. 278, 88 L. Ed. 396, 399 (1944), as follows:

> " . . . The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the antitrust laws not by the patent law. For the reasons[22] stated in Mercoid v. Mid-Continent Invest. Co. supra, [320 U. S. 661, 64 S. Ct. 268, 88 L. Ed. 376 (1944)] the effort here made to control competition in this unpatented device plainly violates the anti-trust laws, . . ."

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[22] The "reasons stated" in Mercoid Corp. v. Mid-Continent Invest. Co., 320 U. S. 661, 666-667, 88 L. Ed. 376, 381-382 (1944) are, in the words of the Court:

> " . . . The patent is a privilege. But it is a privilege which is conditioned by a public purpose. It results from invention and is limited to the invention which it defines. When the patentee ties something else to his invention, he acts only by virtue of his right as the owner of property to make contracts concerning it and not otherwise. He then is subject to all the limiations upon that right which the general law imposes upon such contracts. The contract is not saved by anything in the patent laws because it relates to the invention. If it were, the mere act of the patentee could make the distinctive claim of the patent attach to something which does not possess the quality of invention. Then the patent would be diverted from its statutory purpose and become a ready instrument for economic control in domains where the anti-trust acts or other laws not the patent statutes define the public policy. (Footnote 2 con't. p. 25)

This same rule was in substance reaffirmed in *United States* v. *Loew's, Inc.*, 371 U. S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962), as follows:

> " . . . These cases reflect a hostility to use of the statutorily granted patent monopoly to *extend the patentee's economic control to unpatented products.* The patentee is protected as to his invention, but *may not* use his patent rights to exact tribute for other articles.
>
> "Since one of the objectives of the patent laws is to reward uniqueness, the principle of these cases was carried over into antitrust law on the theory that the existence of a valid patent on the tying product, without more, establishes a distinctiveness sufficient to conclude that *any tying arrangement involving the patented product would have anti-competitive consequences.* E. g., International Salt Co. v United States, 332 US 392, 90 L ed 20, 68 S Ct 12. . ."
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> " . . . There may be rare circumstances in which the doctrine we have enunciated under §1 of the Sherman Act prohibiting tying arrangements involving patented or copyrighted tying products is inapplicable. However, we find it difficult to conceive of such a case, and the present case is clearly not one." (371 U. S. 38, 46, 49-50, 83 S. Ct. 97, 9 L. Ed. 2d 11, 19, 21,) [23]

22 (con't.)

"The instant case is a graphic illustration of the evils of an expansion of the patent monopoly by private engagements. The patent in question embraces furnace assemblies which neither the patentee nor the licensee makes or vends. The struggle is not over a combination patent and the right to make or vend it. The contest is solely over unpatented wares which go into the patented product. . . . The patent is employed to protect the market for a device on which no patent has been granted. But for the patent such restraint on trade would plainly run afoul of the anti-trust laws. If the restraint is lawful because of the patent, the patent will have been expanded by contract. That on which no patent could be obtained would be as effectively protected as if a patent had been issued. Private business would function as its own patent office and impose its own law upon its licensees. It would obtain by contract what letters patent alone may grant. . . . "

23 To the same effect was the court's affirmation of its previous recognition

" . . . that '(t)ying agreements serve hardly any purpose beyond the suppression of competition,' Standard Oil Co. v. United States, 337 US 293, 305, 306, 93 L ed 1371, 1382 69 S Ct 1051. . . " (371 U.S. 38, 44, 83 S. Ct. 97, 9 L. Ed. 2d 11, 17-18)

Loew's, and various of the tying cases on which that decision relies, enunciated primarily the misuse and antitrust consequences of the methods adopted by the patent owner to *induce* the illegal tying contracts *ab initio*. In those cases illegal extension of the statutory monopoly was accomplished through use by the patent owner of the "economic power—presumed when the tying product is patented or copyrighted' 'as a lever "to induce his customers to take the tied product along with the tying item." In cases such as *Loew's* and *United States* v. *Paramount Pictures, Inc.*, 334 U. S. 131, 68 S. Ct. 915, 92 L. Ed. 1260 (1948) where the *tied* product was another, unexpired patent or copyright, leverage or coercion by the monopoly owner was a prerequisite to the violation for without the coercion there would have been no extension of the monopoly. Thus, in *Loew's* the court reaffirmed "the flat holding in Paramount Pictures, 334 US, at 159, that 'a refusal to license one or more copyrights unless another copyright is accepted' is 'illegal'. " (371 U. S. 38, 50, 83 S. Ct. 97, 9 L. Ed. 2d 11, 21)

But, as this Court repeatedly has recognized

> " . . . The method by which the monopoly is sought to be extended is immaterial. United States v. Univis Lens Co. supra (316 US pp 251, 252, 86 L ed 1418, 1419, 62 S Ct 1088). . . . " *Mercoid* v. *Mid-Continent Invest. Co.*, 320 U. S. 661, 666, 64 S, Ct. 268, 88 L. Ed. 376, 381 (1943).

In *this case*, the patent monopoly has been extended by a method quite different from that specifically considered in *Loew's* — and one in which coercion by the patent owner forms no necessary element of the antitrust violation whatever. In this case, as in Prestole Corp. v. Tinnerman Products, Inc., 271 F. (2d) 146 (6th Cir. 1959) *cert. den.* 361 U. S. 964, 80 S. Ct. 593, 4 L. Ed. 2d 545 (1960), the violation is legal consequence of the fact that the "tied" items include the inventions of *unpatented* expired and invalidated patents for which "the public has paid [for] by its grant of a monopoly" and which "have been appropriated to the use of all". The rights in such inventions are

"no longer subject to private barter, sale or waiver". A "manufacturer or user" may *not* "restrict himself by express contract . . . from using the invention of an expired patent" and thereby "deprive himself and the consuming public of the advantage to be derived from the free use of the disclosures". *Scott Paper Co.* v. *Marcalus Mfg. Co.*, 326 U. S. 249, 66 S. Ct. 101, 90 L. Ed. 47 (1945).

It follows *a fortiori* that *any* contract which compromises that paramount public right by restricting competition in the invention of an expired or invalidated patent is, per se, unreasonable and hence unenforceable for violation of the antitrust laws. The question of coercion or the exercise of "leverage" by the patent owner is wholly immaterial to the illegality inherent in any such agreement.

Moreover, Respondent obviously has used its dominant economic position as the sole domestic manufacturer of portable hop-picking machines (R. 49),[24] together with the seven earlier patents under which Petitioners presumably *did* need a license up to their expiration or invalidation, to induce acceptance *not only* of a package license including five identified patents Petitioners did *not* need, *but also* of a royalty contract continuing after many of the licensed patents passed into the public domain. The record shows that some of these agreements will perpetuate Respondent's royalty income at an *undiminished* and unchanged rate until 1964 or 1965 (R. 41-53). A *substantial* portion of that continuing royalty perforce is allocable to the original "appeal" of the patents which expired or were invalidated long prior to the termination of the agreements.[25]

The necessary and demonstrated effect of the package licenses before the court is therefore to equalize — not to

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24 Respondent, through its business, is also the sole domestic supplier of various parts including "picking fingers" and catching "buckets" for the portable hop picking machines. (R. 49)

25 Compare the observation in **Loew's** that "(a) substantial portion of the licensing fees represented the cost of the inferior films which the stations were required to accept. . . . " (371 U. S. 38, 49, 83 S. Ct. 97, 9 L. Ed. 2d 11, 20)

differentiate—the reward for the individual patents. Each licensed patent "stands not on its own footing but in whole or in part on the appeal which another" patent may have. And the appeal of the package lies primarily in the unavailability to Petitioners of portable hop-picking machines and replacement parts under other terms. The result is to "add to the monopoly" of each individual patent and to enhance unreasonably the economic power of Respondent in violation of the public policy antitrust laws. Violation of §1 of the Sherman Act is inescapable. *United States* v. *Loews, Inc.*, 371 U. S. 38, 83 S. Ct. 97, 9 L. Ed. 2d 11 (1962).

C. There Is No Substantial Contrary Precedent

The court below held that:

> "The great weight of authority, as well as the stronger reasoning, is that parties to a licensing agreement may contract for the payment of royalties beyond the expiration of the patent, although, in the absence of such an agreement, a license contract expires when the licensed patent expires. Among the authorities so holding are *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. (2d) 475; *Starke* v. *Manufacturers Nat. Bank of Detroit*, 174 F. Supp. 882; *Tate* v. *Lewis*, 127 F. Supp. 105; *H-P-M Development Corp.* v. *Watson-Stillman Co.*, 71 F. Supp. 906; and *Six Star Lubricants Co.* v. *Morehouse*, 101 *Colo.* 491, 74 P. (2d) 1239. In the later case, where an attempt was made to avoid the obligation to pay royalties because the contract called for their payment beyond the expiration date of the patent, the court said:
>
> " 'There is no legal inhibition against a party contracting to pay royalty on a patented article or formula for a period beyond the date of the expiration of the patents. 48 C. J. 277, §451; *Mitchell* v. *Hawley*, 16 Wall. (U. S.) 544, 21 L. Ed. 322;

> *Pressed Steel Car Co.* v. *Union P. R. R. Co.*, 270 F. 518. . . .' "[26]

The theory that post-expiration royalty contracts are legal was spawned by a series of three early decisions emanating from the Second Circuit. In addition to the decisions in *E. R. Squibb & Sons* v. *Chemical Foundation, Inc.*, 93 F. 2d 475 (2d Cir. 1937) and *Pressed Steel Car Co.* v. *Union Pac. R. Co.*, 270 Fed. 518 (2d Cir. 1920), cited in the opinion below, this series of cases includes *Sproull* v. *Pratt & Whitney Co.*, 108 Fed. 963 (2d Cir. 1901).

As the Third Circuit noted in *Ar-Tik Systems, Inc.*, 302 F. 2d 496, 505 (3d Cir. 1962):

> " . . . in all three cases the suggestions that royalties could be made payable on expired patents were dicta because in each of the three cases it was found that the royalty contract did not provide for such payment. And in Sproull, the earliest of the Second Circuit cases, no authority is cited to support the dictum there stated."

Moreover, it does not appear that in any of these Second Circuit cases the question of misuse or antitrust violation was raised. All were decided before *Scott Paper Co.*, *Ar-Tik Systems, Inc.*, *American Securit Co.*, *Prestole Corp.*, *Scapa Dryers, Inc.*, *Sears, Roebuck & Co.* and *Compco Corp.*

All of the *later* cases cited below — as the Third Circuit

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26 Other precedent sometimes relied upon in an effort to legitimatize post-expiration royalty contracts includes: **Automatic Radio Mfg. Co.** v. **Hazeltine Research**, 339 U. S. 827, 70 S. Ct. 894, 94 L. Ed. 1312 (1950); **Sproull** v. **Pratt & Whitney Co.**, 108 Fed. 963 (2d Cir. 1901); **Dwight & Lloyd Sintering Co.** v. **American Ore Reclamation Co.**, 44 F. Supp. 396 (S. D. N. Y. 1939); **Bettis Rubber Co.** v. **Kleaver**, 104 Cal. App. 2d 821, 233 P. 2d 82 (1951); **Eversharp, Inc.** v. **Fisher Pen Co.**, 204 F. Supp. 649 (N. D. Ill. 1961); **Well Surveys, Inc.** v. **McCullough Tool Co.**, 199 F. Supp. 374 (N. D. Okla. 1961); 2 **Walker, Patents** 456 (Deller's ed., Supp. 1961)

The decision below was followed by the Nebraska Supreme Court in **McLeod** v. **Crawford, et al.**, 126 N. W. 2d 663, 176 Neb. 513, 141 USPQ 45 (1964) which relied on the same precedent.

in *Ar-Tik Systems, Inc.* also noted — rely on one or more of these old Second Circuit decisions. In each of *Starke* v. *Manufacturers Nat. Bank of Detroit,* 174 F. Supp. 882 (E. D. Mich. 1959). *Tate* v. *Lewis,* 127 F. Supp. 105 (D. Mass. 1954); and *H-P-M Development Corp.* v. *Watson-Stillman Co.,* 71 F. Supp. 906 (D. N. J. 1947) the statements with respect to the legitimacy of post-expiration royalty contracts are also dicta. As in *Squibb,* the courts in *Starke* and *Tate* both found that the contracts in suit did not in fact require post-expiration royalty payments, but, rather, that such contracts terminated with the expiration of the patents.[27] In *H-P-M Development Corp.* the court refererd to *Squibb* but noted that the issue was prematurely raised because "no evidence of the dates of the expiration" of the patents in issue had "as yet been produced" (71 F. Supp. 906, 913).

Six Star Lubricants Co. v. *Morehouse,* 101 Colo. 491, 74 P. 2d 1239 (1938), was decided by the Colorado Supreme Court in 1938 — prior to the decisions in *Scott Paper Co., Ar-Tik Systems, Inc., American Securit Co., Prestole Corp., Sears, Roebuck & Co.* and *Compco Corp., supra.* No issue of patent misuse or antitrust violation was even raised. *Mitchell* v. *Hawley,* 16 Wall. 544, 21 L. Ed. 322 (1873) cited by the court in *Six Star Lubricants Co.,* is inapposite.[28]

The "rule which is set forth in Ellis, *Patent Licenses,* 3d ed., §109, p. 128" to which the court below adverted (R. 112), like similar "rules" which appear in 2 *Walker, Patents,* 456 (Deller's ed. Supp 1961) and 69 C. J. S. Patents

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27 The same is true of the decision in **Bettis Rubber Co.** v. **Kleaver,** 104 Cal. App. 2d 821, 233 P. 2d 82 (1951) and **Dwight & Lloyd Sintering Co.** v. **American Ore Reclamation Co.,** 44 F. Supp. 396 (S. D. N. Y. 1939).

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28 In **Six Star Lubricants Co.** the court reversed a judgment for the plaintiff on the ground that it had failed to establish the use of the patented formulae or any patented formulae or any patented modification. The court went on, however, to express its views, which were quoted by the court below, on the contention made by the appellant that a contract provision requiring the payment of royalties on an expired patent was invalid. It instructed the trial court that under the facts of that case the question of whether the contract in suit required royalty payments on the expired patent was for the jury.

§262, p. 802, cite as authority either the early Second Circuit opinions or the court decisions noted heretofore.

Two district courts have failed to perceive the distinction between the prerequisites to violation of the antitrust laws by the mechanism of "block booking" in which "coercion" by the patent owner may be a necessary element and misuse and antitrust violation consequent from illegal post-expiration royalty contracts in which coercion by the patent owner is *not* an element.

In *Well Surveys* v. *McCullough Tool Co.*, 199 F. Supp. 374 (N. D. Okla. 1961), the court found as a fact that "the extension of the royalty base to cover practice of expired patents was not coerced . . . but was voluntary on the part of the licensees who were offered a real alternative by WSI's offer to grant a license under any individual patent or patents on negotiated terms". On the basis of this fact finding, the court concluded as a matter of law that the license agreement "which has in its royalty base the payment of a royalty on service performed on expired patents is not a misuse of the patent".

No authority was cited for the ruling. The court obviously ignored the mandate of *Scott Paper* which insures the free public right to use the subject matter of an expired patent.[29]

A similar error is reflected by the decision in *Eversharp, Inc.* v. *Fisher Pen Co.*, 204 F. Supp. 649, 675 (N. D. Ill. 1961) where the court held:

> "A license which, by its terms, continues until the expiration of all of the patents covered by such license, does not constitute a patent misuse, in the absence of a showing of coercion on the part of the patent owner that the licensee accede to such a provision. See E. R. Squibb & Sons. v. Chemical Foundation, 93 F. 2d 475, 477 (2 Cir., 1937); Sbicca-Del Mac v. Milius Shoe

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[29] This case is now on appeal to the Court of Appeals for the Tenth Circuit. It is understood that that court has reserved decision pending disposition of this case.

Co., supra, 145 F. 2d 289, 401 (8 Cir., 1944),[30] Chicago Pneumatic Tool Co. v. Ziegler, 151 F. 2d 784, 796 (3 Cir., 1945),[31] and of American Securit Co. v. Shatterproof Glass Corp., 268 F. 2d 769, 775, 777 (3 Cir., 1959), cert. denied 361 U. S. 902, 80 S. Ct. 210, 4 L. Ed. 2d 157 (1959)."

The decision in *Eversharp* conflicts in terms with the expressly contrary holding in *American Securit Co., supra.* The citation of the later case apparently as supporting the court's decision reflects its failure to appreciate that the opinion in *American Securit* involved two separate and independent misuse violations, namely, mandatory package licensing which was properly held to involve the element of coercion by the patent owner and post-expiration royalty obligations which were found to constitute a separate misuse "quite apart from" coercion and mandatory package licensing. The decision in *Eversharp* significantly fails to refer to the remainder of the precedent demonstrating illegality of post-expiration royalty contracts.

Automatic Radio Mfg. Co. v. *Hazeltine Research*, 339 U. S. 827, 70 S. Ct. 894, 94 L. Ed. 1312 (1950) did not endorse the legality of the patent monopoly extension by post-expiration royalty agreements. The license agreement in that case involved a group of 570 patents and 200 patent applications. *Automatic* contended that the license agreement could not be enforced because it was "a misuse of patents to require the licensee to pay royalties on its sales even though none of the patents are used."

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[30] The **Shicca** case, which was decided prior to this court's decision in **Scott Paper**, did not present the question of misuse or antitrust violation consequent from a post-expiration royalty provision in the contracts. The facts were that a package of 17 United States and Canadian patents were licensed at a fixed royalty rate per pair of shoes manufactured. The argument turned upon whether or not the pacage license was coercive and the court found that the licensor was willing to license "the contract patents or any of them". There was no question concerning the legality of post-expiration royalty contracts.

[31] This case was concerned only with the interpretation to be placed upon certain terms in a patent licensing contract, the enforcement of which was before the court in a diversity case. No issue of misuse, antitrust violation or illegality was raised. While the contract before the court did include a provision which provided for post-expiration royalty payments as to some units of a patent package, it must be recognized that the case was decided prior to **American Securit Co. v. Shatterproof Glass Corp., supra**, and prior to the opinion of this court in **Scott Paper Co., supra**.

This Court expressly found that

> " . . . This royalty provision does not create another monopoly; it creates no restraint of competition beyond the legitimate grant of the patent. . . .
>
> " . . . But as we have already indicated, there is in this royalty provision no inherent extension of the monopoly of the patent. . . . " (339 U. S. 827, 833, 834, 70 S. Ct. 894, 94 L. Ed. 1312, 1318, 1319)[32]

While it is evident from the face of the opinion that the court would have held the agreement illegal, had its attention been directed to any "inherent extension of the monopoly of the patent" through post-expiration royalty provisions, *the fact is* that the court did *not* pass on that point. Nor can the opinion be bootstrapped into a precedent approving patent monopoly extension through post-expiration royalty payments by reference to the alleged record fact—to which the opinion does not advert — that some of the licensed patents expired or were invalidated during the license term.[33]

Manifestly, there is no "great weight of authority" and, indeed, no real authority at all for the proposition "that parties to a licensing agreement may contract for the pay-

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[32] **H-P-M Development Corp.** v. **Watson-Stillman Co.,** 71 F. Supp. 906 (D. N.J. 1947) **was not cited by this Court, as it was by the court below, in support of the proposition that post-expiration royalty contracts are valid. In Automatic Radio Manufacturing Company this Court cited H-P-M solely for the proposition that "since it would not be unlawful to agree to pay a fixed sum for the privilege to use patents it was not unlawful to provide a variable consideration measured by a percentage of the licensee's sales for the same privilege." Not a word was said about royalty payments for expired patents.**

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[33] The court in fact pointed out that petitioner had "nevertheless contracted to pay for the privilege of using existing patents plus any developments resulting from respondent's continuing research." (339 U. S. at 834, 94 L. Ed. at 1319).

Nor did the dissenting opinion of Mr. Justice Douglas, with whom Mr. Justice Black, concurred, reflect any endorsement by the majority of post-expiration royalty provisions. The reference in the dissent is merely to the desirability of "exposing invalid or expired patents". No consideration is given in the dissent—as none was given in the majority—to the legality of post-expiration royalty contracts.

ment of royalties beyond the expiration of the patent. . . ." as the court below held.

The controlling precedent condemns such post-expiration royalty agreements as constituting both antitrust violations and patent misuse.

Nor are the license agreements in suit saved by any argument based on the private or state law of contract. The court below erred in its failure to recognize the patent and federal antitrust laws as dispositive of the case in favor of Petitioners. As this Court said in *Sears, Roebuck & Co.* v. *Stiffel Co.*, 376 U. S. 225, 84 S. Ct. 784, 11 L. Ed. 2d 661, 665:

> " . . . Pursuant to this constitutional authority [Art. I, §8, cl. 8], Congress in 1790 enacted the first federal patent and copyright law, 1 Stat 109, and ever since that time has fixed the conditions upon which patents and copyrights shall be granted, see 17 USC §§1-215, 35 USC §§1-293. These laws, like other laws of the United States enacted pursuant to constitutional authority, are the supreme law of the land. See Sperry v. Florida, 373 US 379, 10 L ed 2d 428, 83 S. Ct. 1322 (1963). When state law touches upon the area of these federal statutes, it is 'familiar doctrine' that the federal policy 'may not be set at naught, or its benefits denied' by the state law. Sola Elec. Co. v. Jefferson Elec. Co., 317 US 173, 176, 87 L ed 165, 168, 63 S Ct 172 (1942). This is true, of course, even if the state law is enacted in the exercise of otherwise undoubted state power."

There is no legal justification for the decision below. This case is controlled by the applicable federal law under which the contracts in suit are illegal and unenforceable.

CONCLUSION

Petitioners respectfully request this Court to reverse the judgment below on the ground that the contracts in suit constitute a misuse of the licensed patents and a violation of the antitrust laws.

Respectfully submitted,

EDWARD S. IRONS
1000 Connecticut Avenue N. W.
Washington 36, D. C.
Attorney for Petitioners

Of Counsel:

CHARLES C. COUNTRYMAN
VELIKANJE, MOORE & COUNTRYMAN
Suite 4 - Yakima Legal Center
303 East "D" Street
Yakima, Washington

IRONS, BIRCH, SWINDLER & MCKIE
1000 Connecticut Avenue
Washington 36, D. C.

APPENDIX A

Article I, Sec. 8, cl. 8

The Congress shall have Power . . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

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Sec. 154. *Contents and term of patent*

Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the right to exclude others from making, using, or selling the invention throughout the United States, referring to the specification for the particulars thereof. A copy of the specification and drawings shall be annexed to the patent and be a part thereof. July 19, 1952, c. 950, Sec. 1, 66 Stat. 804.

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§1. *Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty*

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal: *Provided*, That nothing contained in sections 1-7 of this title shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand, or name of the producer or distributor of such commodity and which is in free and open competion with commodities of the same general class produced or distributed by others, when contracts or agreements of that description are lawful as applied to intrastate transactions, under any statute, law, or public policy now or hereafter in effect in any State, Territory, or the District of Columbia in which such resale is to be made, or to which the commodity is to be transported for

such resale, and the making of such contracts or agreements shall not be an unfair method of competition under section 45 of this title: *Provided further,* That the preceding proviso shall not make lawful any contract or agreement, providing for the establishment or maintenance of minimum resale prices on any commodity herein involved, between manufacturers, or between producers, or between wholesalers, or between brokers, or between factors, or between retailers, or between persons, firms, or corporations in competition with each other. Every person who shall make any contract or engage in any combination or conspiracy declared by sections 1-7 of this title to be illegal shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. July 2, 1890, c. 647 § 1, 26 Stat. 209; Aug. 17, 1937, c. 690, Title VIII, 50 Stat. 693; July 7, 1955, c. 281, 69 Stat. 282.

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§ 2. *Monopolizing trade a misdemeanor; penalty*

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding fifty thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court. July 2, 1890, c. 647, § 2, 26 Stat. 209; July 7, 1955, c. 281, 69 Stat. 282.